

2016-17 Financial Audit and PSCP/SNSP Reserve Balance

This bulletin provides information on the requirements related to the 2016-17 Private School Choice Programs (PSCP) and Special Needs Scholarship Program (SNSP) financial audit as provided under §§§ 115.7915(6) (e), 118.60 (7) (am), and 119.23 (7) (am), Wis. Stats., and Wisconsin Administrative Codes PI 35.09, PI 35.10, PI 48.09, PI 48.10, PI 49.08 and PI 49.09.

This bulletin also provides information on the requirements related to the PSCP and SNSP reserve balances. See the PSCP Eligible Education Expenses Bulletin and the PSCP Reserve Balance Schedule at <https://dpi.wi.gov/sms/choice-programs/financial-audit> and the SNSP Eligible Education Expenses Bulletin and the SNSP Reserve Balance Schedule at <https://dpi.wi.gov/sms/special-needs-scholarship/financial-audit> for additional information on eligible education expenses.

Financial Audit

Each private school that participates in the PSCP and/or SNSP must hire an independent certified public accountant (auditor) to complete an annual financial audit. The school must submit the financial audit to the Department of Public Instruction (DPI) by October 15th. The financial audit must meet the following requirements:

1. Be prepared in accordance with generally accepted accounting principles (GAAP).
2. Include 2 year comparative audited financial statements, including a statement of financial position, a statement of activities, and a statement of cash flows. If it is the first year a school completes a GAAP financial audit for the PSCP or SNSP, the school may choose to only include the current school year in the statement of activities and statement of cash flows. If the school participated in the PSCP or SNSP in the previous year, all of the statements must be 2 year comparative audited financial statements. All school years in the statements must be audited.
3. Contain an auditor's statement that the report is free of material misstatements and fairly presents the private school's eligible education expenses.
4. Contain an unmodified audit opinion except for:
 - a. A modification for fixed assets purchased in previous years not being included in the financial audit if the school decided to not include certain assets. See the First Year Financial Audit-Capital Assets section below for more information.
 - b. A modification specifically approved by the DPI prior to submission of the financial audit.

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5. Include the required supplemental schedule. If the school participates in both the PSCP and the SNSP, the financial audit must include a supplemental schedule for each program. See below for additional information on this schedule.

If a school is part of a larger organization, the financial audit may be prepared at the consolidated organizational level as permitted by GAAP or at the school only level. If the financial audit is prepared at the school only level it must include all activity and balances of the school, including allocating any shared assets, liabilities, revenue, and expenses between the organization and the school. The school must track the school's cash balance throughout the year and reflect that balance in the statement of financial position. If the financial audit is not prepared at the legal entity level, the financial audit must specify that the audit is at the school level in the audit opinion and disclose it in the footnotes.

Management Letter

As part of the financial audit, the auditor may also prepare a management letter. A management letter includes the following:

- Any letter issued under AICPA Statement on Auditing Standards 114;
- Any letter issued under AICPA Statement on Auditing Standards 115; or
- Any other letter to management communicating significant deficiencies or material weaknesses in the internal controls.

With the exception of the first year the school participates in either the PSCP or SNSP, the school must submit the management letter to the DPI with the financial audit if the auditor issues one. If the school participates in the PSCP, the auditor will determine the status of addressing these items as part of the next Fiscal & Internal Control Practices Report.

First Year Financial Audit – Capital Assets

In the first year a school completes a GAAP financial audit for the PSCP or SNSP, the school must decide what, if any, existing capital assets owned as of the beginning of the fiscal year will be included in the financial audit. The school may choose to include all, some, or no existing capital assets owned as of the beginning of the fiscal year. If the school chooses to include capital assets, the following requirements apply:

1. The original purchase must have met the school's capitalization policy. For more information on the capitalization policy requirements, see the PSCP Eligible Education Expenses Bulletin and the SNSP Eligible Education Expenses Bulletin.
2. The school must have support for the original purchase price and be able to provide evidence that the school paid for the capital asset purchase.
3. The school will need to determine and support the beginning fiscal year book value. This is calculated as the original purchase price less any accumulated depreciation. Accumulated depreciation is the total depreciation that has been taken for an asset.

If all of the fixed assets that meet the capitalization threshold for the school based on the current capitalization policy are **not** included in the financial audit, there should be a qualification in the financial audit. The qualification paragraph should indicate the effects of not including the balances. An example of this qualification is included in the Frequently Asked Questions.

Supplemental Schedule and PSCP/SNSP Reserve Balance

A supplemental schedule, which is titled the “Private School Choice Programs (PSCP) Reserve Balance Schedule,” for the PSCP and/or “Special Needs Scholarship Program (SNSP) Reserve Balance Schedule” for the SNSP is required to be completed and submitted with each annual financial audit. The supplemental schedule calculates the PSCP/SNSP reserve balance by comparing the revenue received from the respective program to the net eligible education costs for pupils participating in the respective program. The components of this calculation are explained below.

For more information on the eligible education expenses, including the expenses that are not eligible and how SNSP exclusive expenses impact the calculation, see the PSCP Eligible Education Expenses Bulletin and the SNSP Eligible Education Expenses Bulletin. Additional information on offsetting revenue is provided later in this bulletin.

Net Eligible Education Expenses Exclusively for SNSP Pupils: This is the calculation of the net eligible education expenses that are either 100% for SNSP pupils or primarily for SNSP pupils. The net eligible education expenses exclusively for SNSP pupils is calculated as the eligible education expenses exclusively for SNSP pupils less any offsetting revenue related to these expenses.

Net Eligible Education Expenses for PSCP/SNSP Pupils: This is the calculation of the general net eligible education expenses for four-year-old kindergarten (K4) through 12th grade educational programming. The net eligible education expenses for *all pupils* is calculated as the eligible education expenses less any offsetting revenue. This calculation excludes costs and offsetting revenues included in the exclusively SNSP lines.

The net eligible education expenses for all pupils is then multiplied by the average full-time equivalent (FTE) of pupils participating in the program. The average FTE is calculated as the FTE for pupils participating in the program divided by the FTE for all pupils in K4 through 12th grade at the school. The following is an example of the calculation of net eligible education expenses for the Choice program.

1. The school has \$120,000 of eligible education expenses for all pupils and \$20,000 of offsetting revenues. As a result, the school has \$100,000 (\$120,000 less \$20,000) of net eligible education expenses for all pupils.
2. The all pupil FTE is 90 for the 3rd Friday in September and 110 for the 2nd Friday in January. Therefore, the average all pupil FTE is 100.
3. The Choice pupil FTE is 70 for the 3rd Friday in September and 90 for the 2nd Friday in January. Therefore, the average Choice pupil FTE is 80.
4. The net eligible education expenses for the Choice program is \$80,000. This is calculated as \$100,000 times 80% (80 Average Choice Pupil FTE /100 Average All Pupil FTE).

SNSP Reserve Balance: The SNSP reserve balance must be maintained by the school and used for future eligible education expenses for SNSP pupils. The SNSP reserve balance is calculated as follows:

	Total current year SNSP revenue received
<i>Plus:</i>	Prior year SNSP reserve balance (beginning in the second year the school participates in the SNSP)
<i>Less:</i>	Net eligible education expenses for SNSP pupils
<i>Less:</i>	Net eligible education expenses exclusively for SNSP pupils
= SNSP Reserve Balance	

PSCP Reserve Balance: The PSCP reserve balance must be maintained by the school and used for future eligible education expenses for PSCP pupils. The PSCP reserve balance is calculated as follows:

	Total current year PSCP revenue received (including summer school)
<i>Plus:</i>	Prior year PSCP reserve balance (beginning in the second year the school participates in the PSCP)
<i>Less:</i>	Net eligible education expenses for PSCP pupils
= PSCP Reserve Balance	

PSCP Reserve Balance Plan: If the PSCP reserve balance is greater than 50% of the total amount of PSCP revenue received in the year being audited, the governing body of the school must approve a plan for how it will use the amount of the PSCP reserve balance that exceeds the 50% threshold. If a plan is required, the school's independent auditor will test whether one has been approved by the governing board as part of the next Fiscal & Internal Control Practices Report. The reserve balance schedule will identify if a plan for the reserve balance is required or not.

Required Cash and Investment Balance: The school must have an audited year-end cash and investment balance(s) as reported on the statement of financial position that is at least as much as the PSCP and SNSP reserve balance with certain adjustments. These adjustments include decreasing the reserve balances for:

1. Any remaining depreciation on fixed assets used by the school; and
2. Any land purchases that have not yet been included as an eligible education expense. If any portion of a land purchase has been included as an eligible education expense in the current or a previous financial audit, the land purchase price is not included as an adjustment.

If the school does not have the required cash and investment balance, it will be required to repay the PSCP reserve balance to the DPI.

Offsetting Revenue

Offsetting revenue is revenue that decreases the eligible education expenses included in the PSCP/SNSP reserve calculation. The offsetting revenues are:

1. Government assistance revenues received for eligible education expenses.
2. Insurance proceeds received for eligible education expenses.
3. Fundraising revenue, up to the non-administrative fundraising expenses included in eligible education expenses.

If offsetting revenue is received for an expense that is included as an SNSP exclusive eligible education expense, the revenue offsets the SNSP exclusive eligible education expenses.

If any offsetting revenue is partially used for educational programming and partially used for non-educational programming, an allocation method must be used to determine the portion that is related to educational programming. See the eligible education expenses bulletin for additional information on methods of allocating revenues.

Government Assistance: The full amount of government assistance revenues received for educational programming are included as offsetting, even if the expenses that the revenues are used for are less than the amount received. This is because government assistance generally requires that the amount received be expended on eligible education expenses, even if it isn't in the same school year that the government assistance is included as revenue.

Insurance Proceeds: The full amount of insurance proceeds received for educational programming are included as offsetting revenue in the year it is determined that the school will receive the insurance proceeds and the amount to be received can be determined.

Fundraising Revenue: The amount of fundraising revenue that is offsetting is the lesser of the fundraising revenue received or the amount of non-administrative fundraising expenses included in eligible education expenses. Administrative expenses (those expenses that are NOT included in the offsetting revenue determination) include expenses for school personnel, copying, mailing, or capital assets used for other school purposes.

For example, during the school year the school has the following fundraising costs and revenues:

1. The school participates in the SCRIP program and receives \$5,000 for gift cards that cost the school \$4,000.
2. The school holds a benefit dinner in the school gym. The administrative staff of the school send out various mailings and make copies of the program. The allocated cost for the school gym, administrative staff time, mailings and copying is \$500. The cost for the food for the benefit dinner is \$2,000. The benefit raises \$5,000. Since the school gym is a capital asset that is being used for other school purposes, its cost is not included in the determination of offsetting revenue. Administrative staff time, mailings, and copy costs are also considered administrative expenses.
3. The school sells candy bars that cost the school \$500 to purchase. The school sells them for \$750.
4. The school sends out mailings requesting donations to pay down the school building mortgage. The cost of the mailings is \$250. This event raises \$25,000.

The following table summarizes the fundraising revenue, non-administrative expenses for fundraising, and administrative expenses for fundraising from the example above:

	Fundraising Revenue	Non-Administrative Expenses for Fundraising	Administrative Expenses for Fundraising
Scrip Program	\$5,000	\$4,000	0
Benefit Dinner	\$5,000	\$2,000	\$500
Candy Bar Sale	\$750	\$500	\$0
Building Mortgage Drive	\$25,000	\$0	\$250
Total	\$35,750	\$6,500	\$750

The amount that is offsetting is the lesser of the fundraising revenue of \$35,750 or the non-administrative expenses for fundraising of \$6,500. Therefore, the offsetting revenue for this school would be \$6,500.

Final Financial Audit

If a school ceases to participate or is barred from participating in the PSCP and/or SNSP, the school must still submit a financial audit for the final school year. If a school fails to submit the financial audit, the school's net eligible education expenses for the year shall be determined to be zero for purposes of determining the school's PSCP and/or SNSP reserve balance. If the school has a positive PSCP and/or SNSP reserve balance, the school must refund that balance to the DPI. That refund must be made within 30 days of the date of the closure payment letter sent to the school by the DPI.

Frequently Asked Questions

Q1. What are 2-year comparative financial statements?

A1. Financial statements that are 2-year comparative financial statements include the financial information on the current school year as well as the previous school year. For example, financial statements for the school year ending June 30, 2018, would include the June 30, 2017 and June 30, 2018 school year. Both years must be audited.

Q2. What is a statement of financial position?

A2. Not-for-profit financial statements require a statement of financial position. The statement of financial position includes the assets and liabilities of the school. This statement is similar to the balance sheet required in for-profit financial statements.

Q3. What is a statement of activities?

A3. Not-for-profit financial statements require a statement of activities. The statement of activities includes the revenues and expenses of the school. This statement is similar to the income statement required in for-profit financial statements.

Q4. What is a statement of cash flows?

A4. Not-for-profit financial statements require a statement of cash flows. The statement of cash flows shows how the cash was obtained and used during the year.

Q5. Does the school need to obtain advanced approval from the DPI if all of the capital assets are NOT included in the financial audit?

A5. No, approval for this modification is not required.

Q6. What is considered fundraising revenue?

A6. Fundraising revenue is any amounts that are received as the result of fundraising. This would NOT include church offerings or subsidies from a related church or school. It would include pledges and contributions that are received as a result of fundraising drives.

Q7. Does the school need to maintain the required cash and investment balance in a separate account?

A7. No. Since the cash and investment balance must be used on educational programming for the school, which is a significant portion of the school's expenses, the required cash and investment balance does not need to be maintained in a separate general ledger or bank account.

Q8. What is example language for qualifying the opinion because all of the fixed assets are not included in the financial statements?

A8. The “Opinion” section of the audit opinion should read “Qualified Opinion”. An example basis for a qualified opinion paragraph is as follows:

Basis for Qualified Opinion

Accounting principles generally accepted in the United States of America require that capitalizable property and equipment be reported in the statements of financial position and depreciated over their estimated useful lives. Certain property and equipment have not been reported in the financial statements. The effects of excluding the property and equipment have not been determined.

Q9. If the school is part of a larger legal entity and the financial statements only include the school’s information, how should the financial audit reflect that the financial statements are not prepared at the legal entity level?

A9. The audit opinion and footnotes must indicate that the financial statements are only for a portion of the organization. This can be completed two ways:

	Option 1	Option 2
Audit Opinion	<p>Adjust the introductory paragraph as follows:</p> <p>“We have audited the accompanying financial statements of ABC School of ABC Operating Organization (“School”)</p>	<p>Include a matter of emphasis paragraph such as the following:</p> <p>Matter of Emphasis – Incomplete Presentation</p> <p>We draw attention to Note A, which describes that the financial statements were prepared for the School for the purposes of complying with the requirements of the Wisconsin Department of Public Instruction and are not intended to be a complete presentation of the assets, liabilities, net assets, revenue and expenses for the School. Our opinion is not modified with respect to this matter.</p>
Footnotes	<p>Adjust the first footnote to include the following:</p> <p>“ABC School of ABC Operating Organization (“School”) is organized as a...”</p>	<p>Note A includes the following:</p> <p>ABC School (the “School”) is organized as a 501(c)(3) not for profit entity. The School’s operating organization is ABC Church. These financial statements present only the financial position, changes in net assets, cash flows, and related disclosures of the School and do not present and are not intended to present the financial position, changes in net assets, cash flows and related disclosures of ABC Church.</p>

Appendix A

Audit Opinion Language

Participants in the PSCP must include the first paragraph in the Independent Auditor's Report of the financial audit provided for the PSCP. Participants in the SNSP must include the second paragraph in the Independent Auditor's Report of the financial audit provided for the SNSP. If a school is participating in both the PSCP and the SNSP, both paragraphs must be included.

Private School Choice Programs Paragraph

Report on Other Legal and Regulatory Requirements

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Private School Choice Programs ("PSCP") Reserve Balance Schedule, as required by the Wisconsin Department of Public Instruction, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In addition, the balances have been subjected to auditing procedures required by Wis. Stats. 118.60 and 119.23 and Wis. Admin. Codes PI 35 and PI 48. In our opinion, the PSCP Reserve Balance schedule is free of material misstatements and fairly presents the private school's eligible education expenses as required under Wis. Stats. 118.60 and 119.23 and Wis. Admin. Codes PI 35 and PI 48.

Special Needs Scholarship Program Paragraph

Report on Other Legal and Regulatory Requirements

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Special Needs Scholarship Program ("SNSP") Reserve Balance Schedule, as required by the Wisconsin Department of Public Instruction, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In addition, the balances have been subjected to auditing procedures required by Wis. Stats. 115.7915 and Wis. Admin. Code PI 49. In our opinion, the SNSP Reserve Balance schedule is free of material misstatements and fairly presents the private school's eligible education expenses as required under Wis. Stats. 115.7915 and Wis. Admin. Code PI 49.